

PERAC Pension News

No.
40

A publication of the Public Employee Retirement Administration Commission - July 2015

PERAC PENSION NEWS 40TH EDITION

By Michael DeVito
Director of Strategic Planning,
Management and Public Affairs

It is hard to fathom that this is the 40th edition of PERAC Pension News. Where have all those editions gone? Our first edition was published in March of 2004. That's a pretty good run of over a decade and are still going strong.

Here's how our Executive Director, Joseph E. Connarton described the goal of the then new publication in 2004:

"On behalf of the Commission, I am very pleased to announce the first edition of PERAC Pension News. It is a new publication that enables us to provide you with a regular update on public pension issues, PERAC activities, upcoming events, legislative activity, and recent legal decisions. Our goal is to bring a timely and helpful focus to the issues of the day. The public pension community in Massachusetts is an

exceptionally hard working group that is confronted with a wide variety of difficult challenges. One of my most important objectives is to enhance communication within our community and to create opportunities to share the perspective of the Commission."

There you have it. We had a simple goal – to provide news about the agency, its activities and its interaction with our two main constituencies, the Massachusetts General Court and the Massachusetts retirement community.

Over the years, we have covered topics directly affecting the Massachusetts public pension community, including regular updates on the Commonwealth and State valuations, the synopsis of our annual Emerging Issues Forum, regulatory issues, constant coverage of board governance and legislative changes - and many, many other topics that we hope have been of interest and use to you over the years.

PERAC BRINGS THE COMMISSION TO THE PUBLIC Holds Regional Commission Meeting in Hyannis, MA



The Commission started holding regional meetings in June. See page 4 for more information on this new initiative.



Also In This Issue

- ▶ 2015 State Valuation Study 2
- ▶ Generational Mortality Assumption 3
- ▶ SEC Investor Alert 3
- ▶ MACRS Conference..... 4

Save the Date!

11th Emerging Issues Forum

September 17, 2015, 9:00 a.m. to 3:00 p.m.

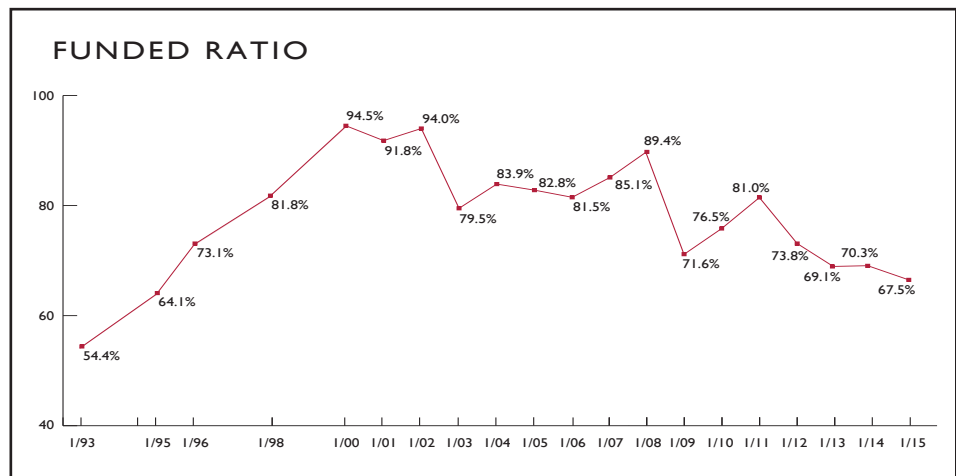
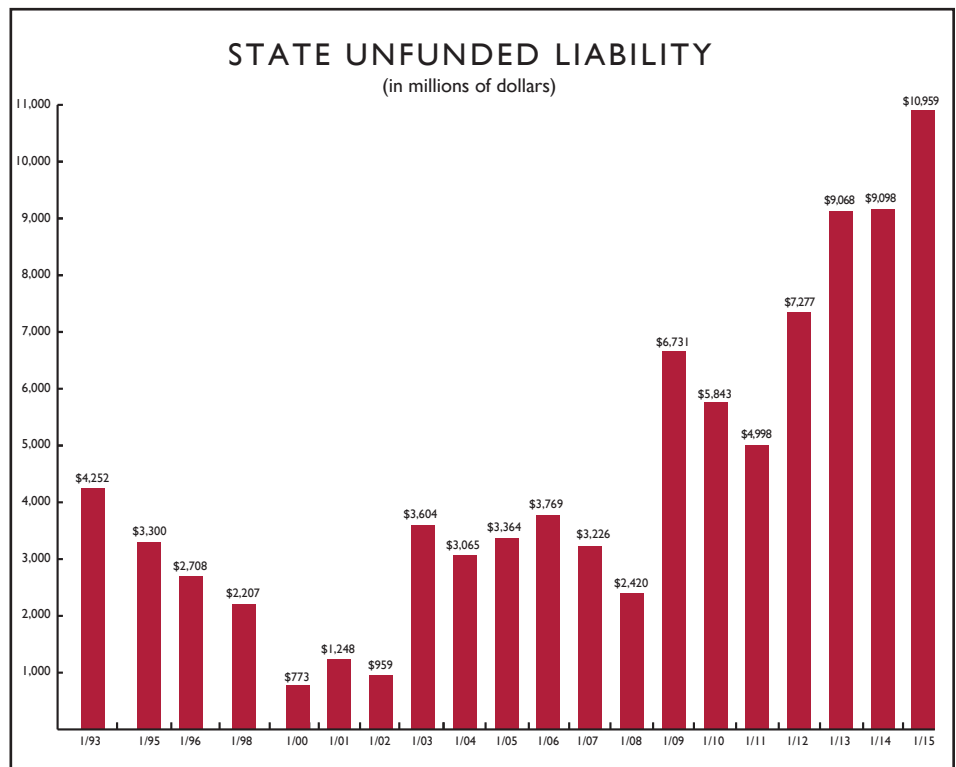
By James Lamenzo
Actuary

Two charts from the January 1, 2015 actuarial valuation report of the State Retirement System (SRS) are presented on this page. The bar chart shows the unfunded actuarial liability (UAL) for the SRS since 1993. The UAL represents the actuarial accrued liability less the value of plan assets. (When there is no UAL, the system is said to be fully funded.) As of January 1, 2015, the actuarial liability was \$33.7 billion and the actuarial value of plan assets was \$22.7 billion. The difference of \$11.0 billion is the UAL, which represents a \$1.9 billion increase from the 2013 valuation.

This increase primarily reflects a change in two actuarial assumptions. First, the investment return assumption decreased from 8.0% to 7.75%. This change increased the actuarial liability (and correspondingly the UAL) by \$804 million (a 2.5% increase in actuarial liability). The second assumption change is the adoption of a “fully generational” mortality assumption (*see related article on next page*). This change increased the actuarial liability by \$593 million (1.8% increase in actuarial liability).

During 2014 there was an overall actuarial gain of \$4 million. There was a non-investment related loss (loss on actuarial accrued liability) of \$275 million due primarily to pay for continuing members being greater than expected. This loss was essentially offset by a gain of approximately \$279 million on the actuarial value of assets. The return on assets was approximately 9.3% on an actuarial value basis, compared to 8.15% on a market value basis. You can find more detail on Pages 4 and 5 of the *State Retirement System Actuarial Valuation Report* found on our website.

It is important to note that plan assets have grown much faster than plan liabilities since 1993. As of January 1, 1993, the actuarial accrued liability was approximately \$9.4 billion and assets were \$5.1 billion resulting in a \$4.3 billion UAL. Since 1993, the actuarial liability has grown by about 3.6 times while assets have grown by about 4.5 times. For this reason, the funded ratio represents a better measure of the plan’s funded progress. The funded ratio equals



the actuarial value of plan assets divided by the actuarial accrued liability. When the funded ratio reaches 100%, a system is fully funded. The funded ratio chart shows the progress made by the SRS in the past 22 years.

The 2008 investment loss significantly impacted the UAL and funded ratios for the State Retirement System, as it did for all systems. However, despite the 2008 loss, the SRS has an average return of approximately 9.8% per year since 1985. This exceeds the investment return assumption of 7.75% effective as of January 1, 2015. If you draw a straight line from the 1993 to the 2015 funded ratio, the

line is moving upward to the right. This demonstrates the funding progress that has been made. Some argue that the plan was 94.5% funded on January 1, 2000 and has moved backward the past decade. I would argue that getting to that level in 2000 was a case of getting “too much, too soon.” The system earned about 12.6% per year from 1985 through 2000. Under more normal circumstances, the funded ratio graph would not have increased so steeply in the 1990s. In fact, if the actual returns from 1985 to 2013 had been exactly 9.8% EACH year, the graph would move slowly upward to the right and most impartial observers would agree significant funding progress had been made. (Continued next page)

PERAC RECOMMENDS GENERATIONAL MORTALITY ASSUMPTION

By James Lamenzo
Actuary

Beginning with our 2015 actuarial valuations, PERAC recommends that Boards adopt a generational mortality assumption. We have outlined our reasoning for this recommendation in this article.

A revision to the actuarial standards of practice in 2010 required that future mortality improvements (longer life expectancy) be considered in valuations performed after July, 2011. To begin recognizing this change, as part of our January 1, 2011 local actuarial valuations, we used the RP-2000 mortality table projected 10 years with Scale AA (a mortality improvement scale). In our 2012, 2013 and 2014 valuations, we gradually extended the mortality improvement scale beyond the valuation date. In our 2014 local valuations, we projected mortality improvement to 2022 for active members and 2017 for retirees. These mortality improvement projections are known as static projections as mortality improvement is projected to a point in time and then the resulting rates are used in all future years.

However, we believe that a more appropriate mortality assumption should reflect a “fully generational” table. A fully generational projection is two-dimensional. The mortality improvement projection is developed based on both the age of a member and the calendar year. We used retiree data from the State Retirement System (SRS) over the past three years (1/12 to 1/15) to develop the generational mortality assumption for SRS. We then used our results as a proxy in determining the mortality assumption for local systems. For SRS, we found that the RP-2000 mortality table with projected mortality improvement using the more recently developed projection Scale BB and a base year of 2009 is appropriate for the 2015 valuation. We recommend this same assumption for 2015 local system valuations. As is the case with all our assumptions, we will continue to monitor this assumption in each actuarial valuation.

Adopting a fully generational mortality assumption is the final step in the process we began in 2011 by projecting mortality improvement with the ultimate goal of moving to a generational assumption. This methodology essentially “bakes

in” all future mortality improvements. Obviously experience and the pace of mortality improvement can change, and for this reason, we will continue to monitor and tweak the assumption as necessary. But by adopting a generational assumption, it is less likely that there will be future significant increases in plan liabilities due to an update in the mortality assumption. This was not the case in the past as the periodic publishing of updated mortality tables with longer life expectancy, required a change in assumption and corresponding increase in actuarial liability.

We have found that for local systems, the change from the 2013 mortality assumption generally increases the total actuarial accrued liability by approximately 2.7%.

Many of you may be aware that a revised mortality table (the RP-2014 mortality table) was published in 2014. However, the final table did not include any experience related to public plans. We found that this table does not match our experience with SRS. However, as with the recommended table described above, we will monitor future experience compared to this table. ■

2015 STATE VALUATION STUDY (continued from page 2)

Please note: The results presented on the prior page pertain exclusively to the State Retirement System. The State Retirement System is one of the four components of the

Commonwealth of Massachusetts pension valuation. The other three components are the Massachusetts Teachers’ Retirement System, Boston Teachers, and the Cost of

Living Allowance Reimbursements to Local Systems. ■

INVESTOR ALERT: BEWARE OF FALSE OR EXAGGERATED CREDENTIALS

The Securities and Exchange Commission has issued an Investor Alert advising the public to look out for unlicensed or unregistered sellers. Many fraudulent investment schemes involve persons who are not licensed or registered. The SEC’s Investment Adviser Public Disclosure (IAPD) website and the Financial Industry Regulatory Authority (FINRA)’s BrokerCheck website are tools available to determine whether a person recommending or selling an investment is licensed or registered and if so, to check out the person’s background including any disciplinary history. You can also contact the Massachusetts Secretary of State’s Securities Division to see whether the person is licensed to do business in the Commonwealth.

Additional Resources

Investor Alerts: Check out Your Financial Professional
Investor Bulletins: Top Tips for Selecting a Financial Professional
Visit Investor.gov, the SEC’s website for individual investors.
Subscribe to Investor Alerts and Bulletins via email or RSS.
The SEC is also on Twitter @SEC_Investor_Ed and
[Facebook.com/secinvestoreducation](https://www.facebook.com/secinvestoreducation)

Read full press release:

<http://investor.gov/news-alerts/investor-alerts/investor-alert-beware-false-or-exaggerated-credentials>

PERAC BRINGS THE COMMISSION TO THE PUBLIC

Holds Regional Commission Meeting in Hyannis, MA

By Michael DeVito
Director of Strategic Planning,
Management and Public Affairs

On June 10, 2015 PERAC held a formal Commission meeting in Hyannis. The goal was to bring the Commission to the public.

PERAC Chairman Philip Y. Brown suggested the idea to the Commission at a recent meeting. He encouraged the initiative as a means of bringing Commission members and the Commission's formal agenda together with the general public and the agency's key constituencies on a periodic basis.

Chairman Brown noted:

"I felt strongly that bringing the Commission not just in 'meets and greets' but in actual formal Commission meetings

to different regions of the state made perfect sense. High up on the Commission's list of goals and objectives are transparency and openness in retirement board operations. Through this initiative, we wanted to demonstrate our own commitment as a deliberative body to these important principles. We intend to be more accessible to those constituencies which we serve and to our ultimate constituency – the Massachusetts general public. We hope that many people will join us at these meetings."

PERAC's Executive Director Joseph E. Connarton seconded Chairman Brown's view on the external meetings:

"Bringing the Commission to the Public is an idea that extends our policy of outreach not only to our specific constituencies but also to the general public. The

public has a right to know and a right to see how their state government conducts its business, not only in viewing the finished product - its decisions - but also in observing how these issues are considered and ultimately how they are decided.

The Commission's decision to carry its deliberations to different regions around the state will help increase access to those discussions to all who have an interest in seeing how Massachusetts' pension oversight works without travelling what may be for some a long distance to Somerville. On that note, the Commission is very open to commentary from all who attend our meetings. We hope that many people will join us in subsequent meetings around the Commonwealth." ■

MACRS CONFERENCE CONTINUES TO GROW

New President Takes the Helm

By Thomas J. O'Donnell
Compliance Officer

Public Employee Retirement Administration Commission Chairman Attorney Phillip Y. Brown, staff attorneys Derek M. Moitoso, Kenneth J. Hill and Patrick M. Charles, Public Affairs Director Michael J. DeVito and Executive Director Joseph E. Connarton each participated with the Massachusetts Association of Contributory Retirement Systems in its educational sessions at the Kevin J. Regan Conference held on June 1 - 3 at the Resort and Conference Center in Hyannis. The Conference has been rechristened to honor the memory of the late Kevin J. Regan, a Westfield Firefighter and Past Association President and Conference Planner.

This year's conference marked the end of President Denis Devine's six years as the Association's President. During this period, President Devine played a pivotal role in representing the Association's membership throughout a tumultuous decade that included the collapse of the financial system in 2008 as well as the passage of major legislation commonly known as Pension Reform in 2011. MACRS emerged as a stronger Association as evidenced by the record-breaking attendance at the most recent Conference.

The Commission and staff are most grateful to outgoing President Denis Devine for his constancy and dedication to strengthening public pension systems in Massachusetts. Whereas he leaves big

shoes to fill, the new Association President will fill her own.

Attorney Kathleen Kiely-Becchetti, Executive Director of the Norfolk County Retirement System, was unopposed in her bid to usher in a new era of leadership as the 48th President. She serves on the executive board and is a frequent participant in the MAPPA legal panel discussions. She also stepped in to fulfill the conference planning role at a time of great distress for the association. "The PERAC Commission Members and staff look forward to working with President Kiely-Becchetti with genuine enthusiasm," remarked Executive Director Joseph E. Connarton. ■



Public Employee Retirement Administration Commission | Five Middlesex Avenue, Suite 304, Somerville, MA 02145
Phone 617 666 4446 | Fax 617 628 4002 | Web www.mass.gov/perac

Philip Y. Brown, Esq.
Chairman

The Honorable Suzanne M. Bump
Auditor of the Commonwealth

Kate Fitzpatrick
Town Manager
Needham

Elizabeth Fontaine
Assistant Executive Director
Massachusetts Educational
Financing Authority

John B. Langan
Deputy Director
Office of Employee Relations

James M. Machado
Sergeant
Fall River Police Department

Robert B. McCarthy
President Emeritus of the Professional
Firefighters of Massachusetts

Joseph E. Connarton
Executive Director

Michael DeVito
Editor